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Financial Planning

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Benchmark

DATA-BASED INSIGHT FROM *FINANCIAL PLANNING* AND ARIZENT RESEARCH

Financial Advisor Confidence Outlook

Market volatility, contentious election send confidence plummeting

However, financial advisors report they have been trying to ease client fears by encouraging them to take a longer view.

By Rob Burgess

Financial advisors cast a wary eye toward the recent global market volatility in the final months of a contentious presidential election season.

Their confidence in the global economic system fell to new lows, according to the Financial Advisor Confidence Outlook (FACO), Arizent's study of financial planners.

Every month, FACO surveys hundreds of advisors and measures their confidence on a scale of minus-100 to 100. This month, that score fell to minus-9, the lowest recorded this year.

Similarly, faith in the global economic system dropped precipitously as well, from minus-49 in July to minus-71 in August. Confidence in the overall economy went to minus-1 from 14 in June and 15 in July. On the other hand, the score for government policy increased by 12.

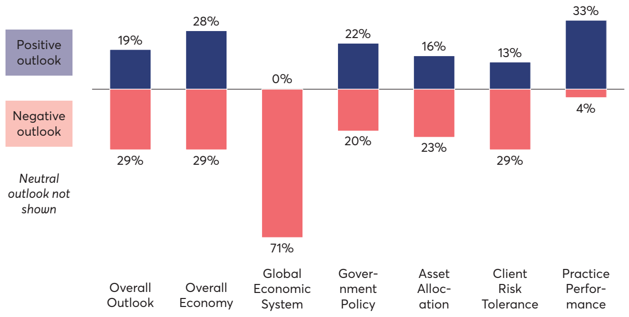
Recent market volatility played an outsize role in client concerns.

"The economy is slowing down, and with the stock market at stretched valuations we are becoming more cautious," said one advisor.

Questions over the economic policies of both major parties' presidential candidates have driven uncertainty, not the least of which includes whether or not the provisions of the Tax Cuts and Jobs Act of 2017 are renewed.

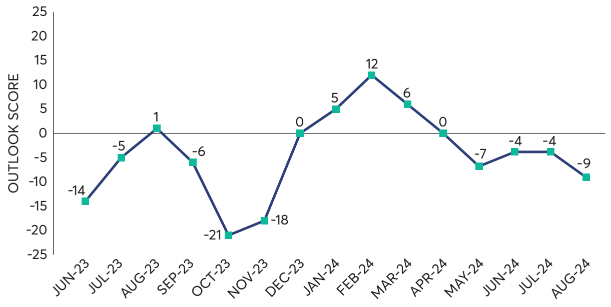
"After a volatile few years, things are settling," said one financial advisor. "A few favorable tax laws may sunset in 2025, however, they could also be extended or further expanded upon."

AUGUST OUTLOOK COMPONENTS



Source: Arizent Financial Advisor Confidence Outlook Survey August 2024
Base: 227 Financial Advisors

FINANCIAL ADVISOR CONFIDENCE OUTLOOK



Source: Arizent Financial Advisor Confidence Outlook Survey June 2023 - August 2024

Election-year politics played a heavy part in respondents' negative overall economic outlook.

One advisor cited clients' "concerns over the possibility of Trump winning a second term and the domestic and

The Financial Advisor Confidence Outlook is created by the editors of Financial Planning and is based on a monthly survey of about 300 advisors. Visit financial-planning.com for more results.

global impact this may have which may not be positive." Another advisor called the political climate "juvenile in [the] U.S. from both parties."

"[The] upcoming election and its impacts seem to have my folks on edge," said another planner.

In addition to the political turmoil in the U.S., other research survey respondents pointed to various issues abroad, such as the fact that "military actions both in Europe and the Middle East created uncertainty in the financial markets."

Somewhat paradoxically, the behavioral outlook figures either ticked slightly upwards or remained steady.

Practice performance was held at 29, the same as last month.

And asset allocation went up somewhat to minus-7 in August from minus-9 in July. Client risk tolerance increased to minus-16 in August from a score of minus-18 in July.

Many advisors have been attempting to set their clients' minds at ease about current affairs as it relates to their investment portfolios.

"Clients have a little hesitation regarding the upcoming election," one advisor said in a telling survey response. "I manage their expectations with this [by] showing historical returns and detaching their investment performance from politics."

One advisor blamed the "media's constant overly negative news."

"That said, I tell my clients, like announcer Paul Harvey, the rest of the story," they said.

Another planner said that "the election noise distracts clients and creates additional unactionable fears.

"This paralyzes clients from concrete decision-making," they said.

"We will try to keep clients focused on long-term goals and historic evidence that the world is not ending." **FP**

Rob Burgess *is a reporter for Financial Planning.*

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What RIA sellers should know about equity offers

The rollovers pose important practice management, tax and business questions.

By Tobias Salinger

When financial advisors sell an RIA, they are increasingly likely to change from the majority owner of their business into a shareholder of the buying company.

Equity swaps comprise a growing share of the purchase price mix in wealth management transactions, alongside cash and contingency payments. Several hundreds of RIAs and other wealth management firms change hands each year, and the offers of equity in the buying firm shock some sellers, who may be caught off guard by the notion of receiving 10% to 20% of the deal price in the form of stock in the acquiring company, according to Mark Wilhelm, a partner at the Troutman Pepper Hamilton Sanders law firm who advises companies in M&A deals.

The incoming equity poses tax implications for many advisory practice sellers, as well as a profound shift from running their own small business to having to understand various classes of equity and the voting rights associated with them, Wilhelm said.

Although some buyers view their shares as "sacred" and don't provide any equity, others see offering it as a requirement since it's a method of "making it cheaper to do the deal" amid high interest rates and a means to keep the seller literally "invested in the business," he said. If they take equity in the buying firm, the sellers often morph from a limited liability corporation established by a three- to five-page document into a private equity-backed agreement running 120 pages or more, according to Wilhelm.

"They've been used to for years and years and years being the sole owners" at firms where "whatever they say goes," he said. "A lot of that comes as a surprise to people selling their business who have typically experienced relatively simple structures."

The higher cost of financing due to current interest rates has prompted buyers to move "away from the cash-heavy, high-certainty deal structures that defined 2019 to 2021" to a time of "shared risk and upside" and a greater portion of equity consideration, according to the latest annual "RIA Deal Room" report by management consulting and transaction

Continued on page 31

CAGKAN/ADOBE STOCK

Aretha Franklin, joined onstage by General Colin Powell, during a 2012 performance in Washington, D.C.

JARC12030/CREATIVE COMMONS

The lessons learned from celebrity estate debacles

Financial advisors say regular clients can learn from these messy celebrity situations.

By Rob Burgess

The fate of Aretha Franklin's estate alone should be a cautionary tale about the dangers of leaving unclear instructions.

The legendary soul singer died in 2018, and initially it was believed that a handwritten will from 2010 was her final testament — but then another handwritten will, this one from 2014, was found under a couch cushion. After years of legal dispute, in 2023 a judge found the latter will to be the valid one.

Spenser Liszt is a financial planner and the founder of Motif Planning in Dallas. He's also a former professional musician who once played saxophone on stage with Franklin when she toured Texas. A large part of his clientele is now comprised of music professionals.

"Musicians often prioritize their art, sometimes at the expense of other critical areas of life, such as estate planning," he said. "This oversight is unfortunately common in the music industry. Artists are advised to surround themselves with business managers, agents and entertainment attorneys, but the importance of financial planners and estate planning attorneys is often overlooked."

Despite having trusted professionals, significant gaps existed in Franklin's financial plan, said Liszt.

"It's possible her team recommended she establish a proper estate plan, but she may have never acted on it," he said. "I've seen this with clients who recognize the importance of estate planning but struggle to follow through."

Daniel Masuda Lehrman, founder and lead financial planner at Masuda Lehrman Wealth in Honolulu, said this process could have been simplified by placing Franklin's homes in a trust and thereby avoiding probate. He said Michigan, where Franklin lived, allows so-called "ladybird" deeds, which allow property owners to transfer real estate to beneficiaries without going through the probate process.

Learning from legends' mistakes

But Franklin is far from the only celebrity to die without clear estate plans in place.

Singer Tony Bennett's children are embroiled in a legal feud over his estate. And last year, the estate of actor James Caan lost its five-year quest to avoid paying nearly $1 million in tax deficiencies and penalties relating to a partnership interest in a hedge fund in his IRA.

Financial advisors who specialize in estate planning say regular clients can learn from these celebrity debacles.

"You may not be on the same level as Tupac, but your family is unique and might not fit in the box the state intestacy laws create for you," said Jamie A. Bosse, senior advisor at CGN Advisors in Manhattan, Kansas. "Everyone's story is different, and you are in charge of how your story plays out."

It might not be easy, but advisors need to find a way to raise the tricky topic — more than once if necessary.

"You can spend all your time and energy building portfolio Taj Mahals for your clients, but it won't mean anything when they come crashing down because the clients didn't have any estate planning in order," said Kashif A. Ahmed, founder and president of American Private Wealth in Bedford, Massachusetts. "Advisors are scared to bring this up, because clients, like everyone else, don't want to talk about it, or they put it off. And advisors never bring it up again."

Ahmed said he is firm with clients and that they need to get documents in order sooner rather than later.

"I keep bringing it up until they at least set up an appointment with an estate attorney," he said.

Death and taxes

Mitchell Kraus, an LPL-registered principal at Capital Intelligence Associates in Santa Monica, California, emphasized the quote made famous by Benjamin Franklin: "In this world, nothing can be said to be certain, except death and taxes."

"Our clients, no matter how big or small, do not like facing the certainty of the two," he said. "It is up to us to help them recognize and plan for both."

Regardless of how much planning clients do, someone is going to make decisions about their estates when they die, said Glenn J. Downing, founder and principal of CameronDowning in Miami.

"This event has a 100% chance of happening," he said. "Do you want to be in charge of this process? Then see an attorney and get your estate properly organized. Or would it please you to see your family members fighting with each other over the substance of your life's work? In that case, do nothing, and your estate will have attorneys to sort it out posthumously."

Others note that plans need to be checked and updated on a regular basis. Gary L. Watts, vice president and financial advisor at Wealth Enhancement Group in Walnut Creek, California, said having an estate plan that is reviewed annually will help avoid headaches later on. He said it's also important to remember that named beneficiaries on retirement accounts and insurance policies will receive the benefit, regardless of what a will says.

"I always say that if you don't have a will, the government has a default estate plan for you, but it's awful," he said. "It's public, time-consuming and expensive."

Proactive family communication is essential

Jonathan M. Owens, vice president and partner at BPG Wealth Management in Clackamas, Oregon, said he has lost count of the number of times he's seen families fall apart due to haphazard communication and poorly written wills. He said it's important to tell clients that they must put a plan in place and share their wishes with heirs.

"Siblings fight, end up in court and no longer speak," he said. "It's your responsibility to be the bad guy during your lifetime, not your executor."

Chad Holmes, founder and financial planner of Formula Wealth in Montgomery, Alabama, said for many families, talking about finances is difficult, but he recommends clients push through.

"Sometimes there is shame that you didn't save enough," he said. "Other times there is fear that your loved ones will try to take advantage of you. … Have the conversation with your children and parents soon, because we never know when it'll be too late to do so."

Robert Duncan, owner of Global Impact Wealth Management in Riverside, California, agreed that estate planning should be an aspect of an ongoing comprehensive financial planning relationship.

Duncan said these celebrity debacles share themes that apply to everyone. Successful transitions involve full family involvement, transparent communication, a clear process and strategy and defined roles and accountability — with competent professionals and mitigation of conflicts of interest.

"Communication among family members is the most important aspect of a sound plan," he said. "No one should be surprised at a loved one's death to suddenly find out how things are going to go."

Regular review of an estate plan should include a look at any interstate moves, tax law changes, asset acquisition or disposition, and other issues that could affect the family, Duncan said.

Well-written trusts and wills are key to preventing posthumous debacles, said Kraus, but advisors and clients must also pay attention to family dynamics that could create issues after a death.

"When you pass, it's too late to make any changes," Kraus said. "One must understand one's family's dynamics and work with future generations to quell any issues before they arise." **FP**

Rob Burgess *is a reporter for Financial Planning.*

SARAH STATHAS/BLOOMBERG

Planning for collectibles — if they're actually valuable

Baseball cards, sneakers, antiques and stuffed animals could sell for a lot — or be a time suck and an emotional drain.

By Tobias Salinger

Financial advisors with clients who have extensive or potentially valuable collections — such as trading cards, coins, stamps, sneakers or stuffed animals — must guide them through an array of estate planning, insurance and behavioral challenges.

While they are much different from works of fine art, which usually carry far higher price tags and the luxury appeal of exclusive gatherings in locales like Paris and Miami, hobby collections raise niche-focused questions that may stump the uninitiated or beg for some correction of investor delusion.

The planning strategies for collectibles start with the same basic query as for art: Is this a valuable asset? If the client can definitively — and verifiably — answer "yes," then their advisor can help them plan for the financial and emotional process entailed by either selling the collectibles or transferring them to their heirs, experts told Financial Planning.

"With any collectible, no matter what it is, the only way you make money is by finding someone who's more excited about it than you are, and that's the challenge when you have these types of items," Craig DuVarney, the founder of Acton, Massachusetts-based Craig DuVarney, CFP and the former owner of a baseball card business, said in an interview. "Eventually they're not rebuying their childhood anymore. They're reselling their childhood all at once."

DuVarney and other planners point to companies that can assign a grade to the collectibles' condition and resources such as the prices that items have sold for on eBay, Amazon or other online marketplaces — rather than simply looking at their listed prices.

While clients are not likely to possess a highly valued collectible simply based on statistical probability, hobbyists in, say, trading cards can cite some price tags that would attract anyone's attention. In 2022, the famous "T-206" Honus Wagner card sold for $7.25 million, a 1952 Topps Mickey Mantle changed hands for $12.6 million and YouTube influencer Logan Paul purchased a Pikachu "Illustrator" card for $5.3 million.

Despite those eye-popping prices, collectibles represent "highly illiquid" assets that are "really volatile" based on timing, according to Jack Elder, the senior vice president of advanced markets with Shakopee, Minnesota-based wealth management firm CBS Brokerage. For example, an "Iron Man" comic book could see a rise in value around the time one of the movies hits box offices, according to Elder, who noted that estate planning conferences always have kiosks for "probably more than one company that provides valuations for collectibles."

To address the illiquid, volatile nature of collectible assets and the possible estate taxes coming due nine months after their owner's death, life insurance that is "liquid at the time you need it" could provide their beneficiaries with a wider window to consider their options rather than finding themselves "in a situation where you're selling them at an inopportune time," Elder said.

"The family may still want to and choose to sell whatever collectibles they have, but at least they're not in a fire sale situation," he said. "They're not going to be emotionally attached to their life insurance proceeds, but they might be emotionally attached to their Jackie Robinson card."

As a retired former player with the New York Yankees and the Oakland A's, planner Kevin Thompson of Fort Worth, Texas-based 9i Capital Group receives three or four cards with requests for his autograph from collectors each month, he said.

The topic of planning for collectibles reminded Thompson of a baseball card collector who lost his entire collection in a house fire — which speaks to the use of safety lockboxes or potential insurance tied to the asset that could at least provide compensation in the event of catastrophe.

The famous "T-206" Honus Wagner baseball card is one of the most valuable in the world, recently selling for more than $7 million.

SCOTT EELLS/BLOOMBERG NEWS

Since the value of collectibles revolves so much around "what someone's willing to pay for it," Thompson said he recommends that hobbyists give their heirs a detailed explanation of their assets and designate a specific beneficiary for the items in their last will and testament.

"I would say take care of that for them," he said. "You're giving it to a person who has no idea what this actually is."

DuVarney agreed that "getting as much knowledge from that parent as possible" about any collection they have is important for clients, since "you don't want to lose that knowledge when the person has passed away," he said. The clients should also take into account the time of taking on the project themselves when liquidating the assets or the expense of hiring an outside specialty company.

Marketing, packaging, shipping and, yes, insuring against any potential damage in the process of selling an item can extract a toll in dollars and hours, DuVarney said. Dealing with the collection may not rank with the myriad other issues that come up after the death of a loved one.

One of DuVarney's clients recently sold their late father's collection of metal toys through auctions and antique dealers, he noted. DuVarney's father maintains a collection of radios from the 1940s that DuVarney said he's not attached to "whatsoever," and the planner and his wife have "come to the realization that our kids don't care about our stuff," he said. Some market research could serve as an aide to advisors in discussing collectibles with clients.

"The emotional connection is what drives the market, and the next generation doesn't many times have that same connection," DuVarney said. "You have people who are not realistic about the value of their asset. And that's where searching eBay history becomes valuable. If you're not seeing a lot of items sold, or they're not selling for the value that you thought they were worth, how do you argue with that? … You can ask anybody to pay whatever you want for it. The question is whether anybody's going to buy. The free market is going to speak."

Whether the clients collect trading cards, cars, jewelry or any other item, advisors can assist them in considering their future course of action. If there is a scenario in which one beneficiary does express particular interest in keeping the collection in the family, the insurance might provide a way to "equalize the wealth" passed down by the estate at death, Elder noted.

Collectibles are a "small market" that is "growing for sure" but doesn't much resemble stocks in the S&P 500 or real estate assets, he said.

"It's still a niche market," Elder said. "It's still highly volatile, and it's not a great way to transfer wealth. So you've got to have a source of liquidity around it." **FP**

Tobias Salinger *is the chief correspondent of Financial Planning. Follow him on Twitter at @TobySalFP.*

ZIMMYTWS/ADOBE STOCK

These common HSA mistakes can cost clients

Planners can help avoid major headaches by guiding clients through the strict guidelines for the accounts.

By Tobias Salinger

Clients eager to use the benefits of health savings accounts must steer clear of all-too-common mistakes that could bring large tax payments or big penalties.

The HSA advantages of duty-free saving, investment growth and withdrawals come with some strict guidelines, planner Kevin Thompson of Fort Worth, Texas-based 9i Capital Group and Health and Welfare Sales Consultant Cat Torres of Wakefield, Massachusetts-based Sentinel Group said.

Potential mishaps include distributing money toward costs that don't fit the IRS definition of "qualified medical expenses" and planning for a tax hit if a non-spouse beneficiary inherits an account.

HSA holders who spend from an account for a nonqualified expense pay up to 20% of the amount as a penalty, Torres said.

And, if the IRS begins to review the HSA outlays, its auditors may begin probing a tax return in ways that "could be very time-consuming and expensive," she said.

"They could go back and say, 'OK, you withdrew $10,000 from your HSA last year. Can you show us the qualified expenses that this was used for?'" she said.

Thompson counts himself "a huge proponent of HSAs," but he tells clients about the tax impact to non-spouse heirs who may be in line to receive the assets. They could avert a potential tax bill to the beneficiaries by draining the accounts to pay medical bills, assigning their HSA to a spouse in their estate plan or considering the use of trusts or charitable gifts, Thompson said.

"It's 100% taxable. It basically becomes an IRA, but it's an IRA that's just immediately distributable to the person who inherits it," he said. "That's one of the few downsides."

Another cautionary area is around Medicare, which is an allowable use of the assets for premiums but a potential snag for clients expecting to work when they're 65 or older. Customers at that age will have to pay taxes on any outlays that aren't for a medical expense, but they aren't subject to the penalties.

In addition, experts recommend that HSA holders cut off any contributions from themselves and their employers for at least

Continued on page 13

TOTOJANG1977/ADOBE STOCK

Read before selling: The many alternatives to M&A

If advisors face challenges, experts say they can be solved without letting go of their firms.

By Tobias Salinger

With private equity and other investors racing into wealth management to fuel the continuing M&A deal flow, many financial advisors must decide whether to sell their firm.

Offers to buy an independent registered investment advisory firm run at a healthy valuation upwards of 10 times their earnings before interest, taxes, depreciation and amortization, which may explain why hundreds of owners are taking deals each year. Advisors confronting succession ahead of their retirement, or trying to find greater scale or better service through outsourcing, can often add those factors to the "pro" side as well.

However, the marketplace for advisory practice and RIA services provides other paths that can boost valuations while keeping the firm's equity with its founder and their preferred successors.

Firms can accomplish a founder's goals without rolling up control of the company into a giant consolidator, experts told Financial Planning. The options include changes in brokerage, RIA, custodian, platform provider or technology vendor; capital facilitation between the current and next generations; increasingly available forms of financing; or selling a minority stake.

"We talk to advisors all the time about selling their practices, and — I have to be honest — in many of the cases, it's not the right decision," Matt Regan, the president of independent advisor platform Wealthcare, said. The incoming gains of selling right away "might not be the best thing for you or your family" from a tax perspective, he noted. And "the one thing they worry about the most is not money," but rather "what will happen to clients" under new ownership, Regan added.

Consider the options

About 180 advisors managing $7 billion in client assets have tapped Wealthcare for of services like technology, trading, compliance, planning, investments and other operational needs as independent contractors or W-2 employees of the firm, Regan noted. A growing number of RIA consolidators, platform providers, independent brokerages, custodian and clearing companies and fintech firms are competing to work with advisors on any basis whatsoever — whether that setup entails parting ways with majority ownership or not.

Advisory practice owners often feel a sense of "dissatisfaction" when there is a "discrepancy between what was promised in terms of support and services and what was received" through their current platforms, said Shauna Mace, the head of practice management for asset manager, custodian and technology firm SEI.

In thinking about "what can we take control over, what can we give up," and a way to find capital without folding into a consolidator, the founders encounter a "successor problem," she added. "You want to grow, but if you grow too big then you price out your successor."

Vendors across the industry can help. For example, Dynasty Financial Partners could support a firm launching an RIA, joining an existing one in its network or securing capital and M&A transactions, Dynasty Vice Chairman Andrew Marsh said.

"I'd like to think that Dynasty's approach to meeting people for the first time is very much consultative," he said. "We first start by trying to figure out the best solution, knowing that we're lucky enough to be able to offer decent solutions all around."

The best reasons to wait on making any M&A deal relate to the answer to "what's your ideal outcome," Marsh added.

Other capital solutions

For some practices, that could emerge from spinning off only a minority stake in the firm to an outside investor — a method used by RIAs of all sizes.

The incoming capital delivers "an inherent arbitrage" from the difference in valuation to an RIA after its growth as a result of the infusion of resources, while "you maintain autonomy" and "you still own the majority of your practice," Regan noted.

"You've de-risked the largest investment that you have, which is your firm," he said. "Advisors just have to be very eyes-wide-open to what either selling the entire firm or a minority stake really means."

Other means of "diversifying the risk" relate to ways that "make it more economical" for the second generation in a succession plan, such as leaving the firm to two younger advisors rather than one, Mace noted. Profit-sharing agreements that transfer equity over a longer span or a range of "financing programs that can provide essentially small business loans to advisors" from collaborating banks or internal institutions set up for that purpose by the service provider firms could obviate the underlying justification for selling or slow down the transition, she said.

"Just don't do it alone. There are so many resources and experts and advisors who have gone through this process," Mace said. Before selling, advisors should "let key partners know" by getting in touch with their custodian or other vendors, she said.

Slow down

Advisors ought to think through possible options instead of "just being reactive" in a scenario in which "you and I are partners and we're having a great time running our business and out of the blue comes an offer," Marsh said.

An "internal next-gen buyout" facilitated by Dynasty or another provider presents an alternative to rolling up the equity to someone else, and outsourcing some aspects of the firm's operations could avert an outright sale while ensuring the "business becomes very, very clean and therefore more attractive to a buyer" down the line, he said. **FP**

Tobias Salinger *is the chief correspondent of Financial Planning. Follow him on Twitter at @TobySalFP.*

Continued from page 11

six months before applying for Medicare, according to an article in the Journal of Accountancy by personal financial coach Kelley Long.

"When taxpayers opt to continue working past age 65 and wish to continue funding an HSA, they need to be very clear on the Medicare rules of application and enrollment to avoid either penalties for excess HSA contributions or late-enrollment penalties for Medicare Part B and Part D," Long wrote.

Every year, the IRS updates the total maximum contributions into the accounts. Sometimes, savers lose track of their contributions or don't realize they have to restrict them under a prorated ceiling if they switch jobs, Torres noted.

"Not everybody is considering their employer contribution plus their payroll contribution — they all go toward that maximum," she said.

HSA savers may also run into penalties if they, for example, expect to pay medical bills of $5,000 that only end up costing $4,200 and then forget to return the remaining money to the account, Torres said.

"Everything can be fixed, and as long as you do it in that same tax year, you're going to be OK," she said. **FP**

Tobias Salinger *is the chief correspondent of Financial Planning. Follow him on Twitter at @TobySalFP.*

ROW2K

Broadridge athletes Michelle Sechser and Molly Reckford row in a double scull event in the Paris Olympics.

Supporting Olympic rowers, on and off the water

Eight Broadridge employees rowed at the Paris Olympics through the fintech's Elite Athlete Management Program.

By Sabrina Ticer-Wurr

In preparation for this year's Paris Olympics, eight rowers on Team USA's women's rowing team split time between workouts on the water and working in the office.

Broadridge, a Lake Success, New York-based fintech that provides trading technology for wealth managers, banks and public companies, employed the rowers as part of its Elite Athlete Management Program.

The program was inspired by Broadridge CEO Tim Gokey, who rowed in college, and Managing Director of Wealth Management Jean Reilly, who rowed in college as a walk-on and dreamed of competing in the Olympics.

"I was working in coaching at the same time, and there just weren't opportunities to really continue your career at the time," Reilly said.

Reilly described herself as a "product of Title IX" and said that at the time she started rowing, women were relatively new to the sport. While she loved rowing, she did not always feel supported as an athlete.

"I would have stayed longer in the sport if I had somebody that would support me, or if I could have started my career," she said. "But I had to choose between a career and staying on and rowing."

Broadridge wanted to create a program that would address this dilemma, help athletes perform well in their sport and give them financial security and support as they launched non-athletic careers.

Rowing toward a professional career

Olympic rowers Molly Bruggeman, Charlotte Buck, Azja Czajkowski, Emily Kallfelz, Molly Reckford, Regina Salmons, Michelle Sechser and Jessica Thoennes all participated in the Broadridge program.

Broadridge athletes made up nearly a third of all Team USA's women's rowers. Though the Broadridge rowers didn't return with a medal, all made it to the final rounds in Paris.

"The team did very well at the Paris Olympics, and we have a lot to be proud of," Reckford said. "Our women's team qualified all women's boats for the fifth consecutive Olympics. For the last two Games, we are the only country to achieve this."

To prepare for the waters of the Vaires-sur-Marne Nautical Stadium, the rowers woke up early in the morning and completed two to three workouts per day. In between morning and afternoon workouts, athletes got online to complete their work for Broadridge.

Athletes in Broadridge's program are responsible for working 20 hours a week.

"Broadridge did an amazing job helping us find roles within the company that allowed us to be flexible with both our daily schedule and with our longer-term schedules as training took up more of our time as the Games approached," Reckford said.

The athletes work across several departments at Broadridge, including strategy, client success, professional services and finance.

Reckford said that the financial support from Broadridge during her training was helpful in achieving both her athletic and career goals. Before Broadridge, she worked at Citi as an analyst and at Menlo Park, California-based Aetos Alternatives Management as an associate.

"Working for Broadridge gave me the ability to afford rent on an apartment last year, as opposed to needing to stay with a host family," Reckford said. "The Elite Athlete Management Program has introduced me to nearly all of the executives of the company, and helped create a pipeline for me to find mentors and create relationships with the executive leadership team."

Reilly said that athletes are particularly appealing as potential employees because of their smarts, drive, knowledge and propensity for teamwork.

Broadridge President Chris Perry sees the program as a recruitment opportunity for Broadridge to take on athletes full time as their athletic careers transition from Olympic-level competition to club rowing.

"We feel like we're doing our American part in one way," he said. "And we're really excited about the potential of these well-educated, very proven work ethic people joining the company full time after."

Reckford is looking forward to her future at Broadridge as she pivots away from rowing as her main focus.

"I would like to find a place within Broadridge where I can be constantly challenged and learning, and the rotational program has absolutely helped me learn about new areas of business where I would be interested in settling down," she said. "I don't know exactly where my five-year plan is, or whether continuing with rowing will be part of it, but I do want to return to full-time work for the next year while I try to find my own occupational North Star."

Partnering with USRowing, the national governing organization for the sport, Broadridge's program started with four athletes in 2022 and grew to 10 by 2023. USRowing sent Broadridge résumés of athletes with a range of experience, from those fresh out of college to those with MBAs. As part of the original three-year partnership, Broadridge was a presenting sponsor of USRowing's Youth National Championship and USRowing Golden Oars Gala for 2022, 2023 and 2024. The company chose to employ women athletes because of their underrepresentation in financial services.

"We love the diversity angle because it's women's rowing. We specifically chose women's rowing to support that. We're also trying to bring more women into them, into the organization, into middle management ranks, and we said, 'OK, let's find a way to sponsor this,'" Perry said.

It has been such a success that Broadridge has even been approached by other national teams that want their athletes to be considered for the program. Perry said that budget allowing, Broadridge would like to expand the program, which complements its regular management training efforts, to include athletes from other sports.

"We would entertain something because it feels like we've opened up an access point to people that have education and work ethic and will make for long-term great associates," he said.

Perry called the program a "win-win" and a "circle of positivity" for Broadridge and for athletes.

"They can be fully immersed in their dream and their commitment to the Olympic program, and they can be working in real business, doing real projects, so that their résumé, from a professional standpoint, is not gapped by whatever time they put into full-time training," he said.

A culture of support

Broadridge employees were heavily invested in the success of their coworkers at the Olympics.

"Emotionally, my team at Broadridge has been in my cheering corner since I rotated into the group in the fall," Reckford said.

The company created a special chat where athletes could post updates about their training for all employees to see, according to Reilly, who attended the Paris Olympics to watch the Broadridge athletes compete.

"15,000 Broadridge associates around the world felt like they were there with it, and they were all sending their positive wishes and motivation. And it was pretty infectious," she said.

"[We are] super proud of them," she said. "We already see the intensity that they have and the teamwork that they have out on the water come into the office, and how they go about their work and how they go about team building and making projects happen."

Perry said that the training program fits into Broadridge's mission of improving the financial futures of clients by powering their ability to invest through advisors.

"Elite talent aligned up with this program creates a great performance and future for our company, for many generations," he said.

Reilly said that the team sport of rowing itself is also compatible with the company's culture. "The culture is very much about teamwork and collaboration," she said. "[The athletes] bring so much to the table." **FP**

Sabrina Ticer-Wurr *is a reporter for Financial Planning.*

THE INNOVATORS

At the forefront of AI invention and integration, the inaugural Innovation Award winners use wealth management technology to benefit their clients — and their bottom lines.

By Rachel Witkowski

An advisor doesn't necessarily need to be a preacher of artificial intelligence, but they do need to begin experimenting with AI tools now if they want to keep growing in the next decade.

"Staying ahead of the game with innovative technology, especially AI, is essential for the wealth management industry because investor expectations are evolving rapidly," said Natalie Wolfsen, CEO of Orion, a leading wealthtech platform that's been recognized as Financial Planning's winner in Innovation in Portfolio and Investment Strategy. "Advisors who integrate advanced technologies, like AI, into their practice will be better equipped to meet these expectations, streamline operations and focus on what truly matters — building trust and guiding their clients toward achieving their life goals."

That's the common sentiment shared across the wealth advisor industry and from the most forward-thinking innovators who are using AI to automate key aspects of an advisor's everyday workflow functions — from personalizing client emails, customizing portfolios and developing marketing strategies, to tracking investor behaviors for identifying client growth.

"By embracing innovative technology, advisors can enhance client relationships, increase efficiency and ultimately drive better outcomes for their business," said Angel Gonzalez, chief marketing officer at Snappy Kraken, which was awarded for Innovation in Marketing Technology based on its AI email builder tool. "In an industry where trust and communication are paramount, adopting innovative technology is key to staying relevant and successful." Nearly 40% of advisors said AI was built into at least one of the tools their organization has adopted, according to a Financial Planning survey performed earlier this year. About 62% said AI helps them automate workflows, and another 61% said it increased efficiency.

The winners of Financial Planning's new Innovation Awards in wealth management were selected based on their AI innovations in marketing, client engagement and customized portfolio management. They will be recognized at Financial Planning's first conference solely dedicated to AI tools for advisors, ADVISE AI, this Oct. 9-10. At the conference, the winner of the Innovator of the Year award will be announced live. Read all about the other winners below.

The Innovators

Innovation in Marketing Technology

Writing a personalized email to prospects is a time-consuming challenge, but getting them to actually open the email and potentially engage is a far greater feat. Studies have shown that barely a quarter of sales emails are opened, and the average person deletes 48% of the emails they receive daily. However, advisor marketing firm Snappy Kraken is reversing this trend with its all-in-one AI-powered email builder technology.

The tool uses an API integration through OpenAI that allows advisors to rapidly craft customized marketing content, via email, in a fraction of the time it takes drafting one from scratch. Since its launch a year ago, advisors have sent out more than 7 million AI-powered emails through Snappy Kraken's email builder, producing an average open rate of 40%, significantly higher than the typical industry rate.

"Our AI-Powered Email Builder has become a game changer for financial advisor marketing," said Angel Gonzalez, chief marketing officer at Snappy Kraken. "This tool transforms the content creation process for financial advisors, helping them move from idea to finished email in mere minutes."

The AI-powered Email Builder also helps craft compelling headlines; generates personalized and brand-consistent images with a single prompt; and creates calls to action — allowing advisors to meet deadlines while still having more time with clients, rather than building marketing campaigns.

"I was under a deadline to send out useful content and a promotion via email. I asked the AI helper to craft a message about the 'benefit of using structured notes in a portfolio to stave off stock market volatility,'" according to a review by Jay Reeves of Clarity Financial Wealth Management, submitted in Snappy Kraken's nomination. "In an instant, I had what I needed, and was able to send out a well-crafted email to my list. I'll be using this tool often and can't wait to see where it goes from here."

Innovation in Specialized Planning Technology

Wealthtech platform FP Alpha has garnered much industry attention by using AI to perform the everyday functions that most advisors either don't want to do or have little time for: reading and interpreting documents like estate plans, tax returns and insurance policies.

"We created a way for advisors to save an incredible amount of time … by reading documents and visualizing it for them and finding opportunities to improve portfolios," said Andrew Altfest, founder and CEO of FP Alpha.

A key component to FP Alpha's tools is the Estate Snapshot, which launched in 2023 and provides advisors a scalable way to rapidly summarize key components of a client's estate plan. Through AI technology, the Estate Snapshot then produces client deliverables with easy-to-follow visuals that helps the advisor better explain potential scenarios and opportunities to their clients and formulate action plans.

FP Alpha's capabilities also extend to tax returns, wills, trusts and insurance policies. It helps advisors identify liquidity events, creates a referral source with attorneys and ways to include the next generation of families in financial discussions. All of these processes can be performed in minutes rather than hours through AI.

"We listen very carefully to our customers and what they're asking for. We've had a very clear vision to take advanced planning that's only been available to the wealthy in a manual format and then use technology to make it accessible to everyone," Altfest said.

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ORION

Innovation in Portfolio and Investment Strategy

Wealth technology powerhouse Orion has been on the forefront of launching high-tech tools for advisors, particularly in the past two years with its May 2023 release of Redtail Speak, a ChatGPT-integrated real-time communication for advisors, as well as its data-driven portfolio comparison tool, Orion Compare, released this March.

Since then, Orion has continued to grow under the new leadership of CEO Natalie Wolfsen — an open architecture believer who plans to transform the Omaha, Nebraska-based firm into a fully integrated advisor e-world powered by AI tools.

"I believe our recognition stems from both Orion's deep understanding of the challenges that advisors face every day as well as our demonstrated commitment to delivering leading-edge technology that meets the evolving needs of advisors and investors alike," she said. "Winning this award is a tremendous honor for Orion and a validation of our efforts to lead the industry with pioneering, advisor-centric technology."

One of Orion's most innovative tools recognized for this award is Orion Compare, which streamlines the portfolio comparison functions for advisors so they can customize portfolios at much faster rates and with greater capabilities. It is powered by end-investor data from Orion's Portfolio Accounting tool, Orion Risk Intelligence, Orion Planning and Orion's BeFi20 tool.

Having such a fully integrated tool allows advisors to seamlessly access portfolio accounting valuations, perform cost-basis information and risk analytics. Advisors can also rapidly generate presentation-ready portfolio scenarios and get AI-generated talking points to use with clients or prospects.

"This app streamlines complex processes, providing advisors with a seamless dashboard to effectively construct, analyze and communicate the simulated impact of portfolio changes to clients," Wolfsen said. "Tasks that once consumed hours and required multiple team members can now be accomplished with just a few clicks, resulting in presentation and trade-ready portfolio scenarios within minutes."

Savvy

Innovation in Automation

Since it launched in July 2021, Savvy Wealth has built an entire AI-backed advisor platform and software services based on one concept: time.

Savvy Wealth's "relentless focus is supporting advisors and giving them back time. This is the approach we took" from the start, said founder and CEO Ritik Malhotra. The firm has built out a fully loaded bucket of software and services, including a customer relationship management (CRM), billing, client onboarding, marketing software, investment management and operations capabilities. It supports more than 30 wealth advisors through its RIA affiliate, Savvy Advisors, which manages more than $700 million in client assets.

Key to Savvy's growth has been its focus on reducing up to 35% of the time advisors spend on back-office operations by automating a large portion of those functions. This includes implementing an AI-powered Advisor Dashboard that automates critical functions like client communications, portfolio management and the onboarding processes.

Unlike traditional systems, this platform leverages AI to actively manage client data, providing real-time insights and proactive alerts that guide the advisor on when and how to interact with clients. It also uses a large language model similar to ChatGPT to draft communications and tailored financial plans, freeing up the advisor to focus more on strategic and personalized advice for each client.

"The best strategy to really bring on advisors is having this very educative, consultative approach — really trying to understand their pain points. Don't force a sale," Malhotra said. "We're not trying to sell it. We're trying to see if this can actually help the individual's livelihood."

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[*] As reported by Inc. Magazine, Inc. 500|5000 Company Awards, 2006, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2020, based on total revenue.
[**] As reported by San Diego Business Journal, "Fastest-Growing Private Companies - Large Category," 2023, based on total revenue.
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Innovation in Marketing; Innovation in Client Engagement

Stronger engagement with advisors and clients is pivotal to the RBC Wealth Management's tech-powered strategy — down to making sure advisors know their clients' birthdays.

RBC Wealth Management Campaign Central is a self-service platform for advisors and the corporate marketing team that helps generate dynamic marketing content and tracks engagement. Advisors can send personalized messages at scale to clients and prospects, including the ability to schedule recurring messages.

Since the firm partnered with Salesforce in 2021 to consolidate its CRM systems and launch this digital marketing tool, nearly 1,000 financial advisors have adopted it. The email marketing channel averages a 55% engagement rate, according to Campaign Monitor.

Diving deeper into the client engagement side, RBC Wealth Management-U.S. also partnered with TIFIN AG to create an AI program that helps advisors track client behaviors and respond to their financial movements. Called AI-Powered Insights, the program identifies which clients might be moving funds due to a financial event like selling a house or a business; or inheriting money. It also provides a list of leads to advisors through RBC Wealth Management's advisor desktop platform supported by Salesforce.

This can help advisors grow their new client base and potentially consolidate assets with RBC — particularly important when high net worth clients store their assets across three to five financial service providers, the firm said.

RBC Wealth Management-U.S. has been tracking assets gained through AI-Powered Insights versus other origin sources and found that for every three phone calls to clients, advisors garnered at least one commitment to bring assets over. The firm's "advisors say AI-Powered Insights helps them anticipate client needs and provide more value to clients. Campaign Central helps financial advisors connect with prospects and clients in a timely and efficient way that facilitates deeper connections," said Greg Beltzer, head of technology for RBC Wealth Management-U.S. "Those human connections are an essential part of creating long-lasting relationships — and that's the ultimate goal."

AI-Powered Insights, which launched in February 2024, is available to the firm's more than 2,100 advisors.

Innovation in Lead Generation Technology

When CEO Lori Thiel launched WEALTHAWK in January, she sought to solve a prospecting problem for financial advisors that had a unique cause.

"Their ideal prospects, they don't exist until a certain event occurs," she said. These "money in motion" occurrences that produce a financial windfall may happen just once in a person's lifetime. "Suddenly, an individual has to figure out what to do with that," she said.

WEALTHAWK is an AI-powered prospecting platform for financial advisors that uses proprietary algorithms to scrape the internet daily to find data on these so-called "liquidity events." The software then uses a ChatGPT-style interface to help initiate a first-contact message between the prospective client and the financial advisor. WEALTHAWK can also be integrated into CRMs including Wealthbox and Redtail.

Even as the company is still in the early stages, Thiel said it had already identified over 300,000 prospects using the platform.

With just under 100 users currently, the subscription rate for WEALTHAWK is $199 monthly. Thiel said the firm has kept the cost intentionally low initially to attract more customers.

"The idea is to get a bunch of users on quickly so that we can get good insight," she said.

— *Rob Burgess*

Nationwide®

Innovation in Professional Development

Call it the cure for the common seminar. Nationwide's Financial Marketing Integration and Enterprise Innovation and Digital units worked with Morgan Stanley Wealth Management to create tax-efficient retirement income planning training in the metaverse. Morgan Stanley's financial professionals logged in through the web or with goggles to sit in a virtual room as avatar characters. Rather than forcing everyone into increasingly stale video meetings or trying to get busy financial advisors together in one physical location, Nationwide used feedback from 20 pilot participants to develop an interactive educational experience. The resulting virtual seminar led to a combination of self-guided, expert-led and peer-learning opportunities.

The company's primary goal was "to reinvent the way seminars are experienced by creating an immersive world accessible by financial professionals," Nationwide wrote in the firm's nomination submission. "We collaborated with Morgan Stanley to help identify specific measurements including the user experience, engagement in the space and learning from financial professionals on what provides value."

Those efforts paid off. At least 53% told the firm they liked the metaverse seminar more than webinars or in-person sessions. The same percentage reported they would recommend it to others; 61% said they're interested in returning to the Metaverse for another training.

"Our goal was to elevate virtual learning," Nationwide said. "This immersive method outperformed conventional platforms like Zoom, engaging users more effectively. These insights will guide Nationwide and [Morgan Stanley] in future applications, enhancements, and how to leverage use of this technology for the future."

— *Tobias Salinger*

DNA Behavior®

Innovation in Client Onboarding Technology

Add the need to have clients take personality tests to the list of burdensome tasks artificial intelligence promises to help eliminate.

At least that will be the case if the Atlanta-based tech firm DNA Behavior makes good on the promise of its AI Digital Scan system. Ryan Scott, head of product for DNA Behavior, said AI Digital Scan's process begins by ingesting the large amounts of demographic data most advisors already have on their clients.

It then searches the internet for information clients have shared about themselves. That can range from social media posts on sites like LinkedIn to statements company executives might have given in interviews.

All that is run through AI and machine-learning processes for signs of clients' likely psychological traits. Scott said DNA Behavior maintains a library of 2.5 million psychological profiles that any results from new data gathering can be compared against.

By doing that, Scott said, AI Digital Scan can predict 4,000 traits a person is likely to have with a 92% confidence level.

"So it looks deeply at savings and spending patterns and tries to determine if someone is a saver or spender," Scott said. "It can also look at certain trends and behavioral biases. Those might be the inherent biases that an individual might have when approaching a decision."

DNA Behavior estimates AI Digital Scan will save advisors two hours of time per client per year. Perhaps most importantly, Scott said, it can help an advisor decide if a potential client is a good match in the first place. Misaligned personality results could mean it would be best to hand a new prospect off to a colleague.

"Advisors want to work with clients who are very similar to them," Scott said. "So one of the use cases is to avoid bad client matches."

— *Dan Shaw* **FP**

2024

RISING STARS

By Sabrina Ticer-Wurr and Nathan Place

Financial Planning is excited to announce its 2024 Rising Stars. This honor is awarded every year to financial professionals who are relatively new to the field (less than 10 years of experience) and have an impressive work ethic, a passion for service and a genuine dedication to advancing the industry.

The seven Rising Star winners for this year were selected from a large pool of nominations that included financial professionals from across the country. The winners are not only planners but also writers, founders, volunteers and thought leaders. Some started their careers straight out of college, while others embarked on different paths before pursuing wealth management. All are driven by a commitment to innovation and leadership.

Natalie Colley, partner and senior lead advisor at New York-based Francis Financial, grew up in a family that relied on others for money. That "fueled her passion for empowering other women to take control of their finances," according to Stacy Francis, CEO and partner at Francis Financial. As a CFP and CFDA, Colley specializes in helping women who have been divorced. She leads the firm's investment committee and works pro bono with women who have high financial need.

Originally trained as a chemical engineer, Colley worked at pharmaceutical manufacturing company Perrigo for seven years before deciding to pursue financial planning. She had always had a passion for finance — at age 19, she opened a Roth IRA and successfully convinced her roommate to do the same.

Colley hosts educational sessions for advisors on guiding clients through divorce-related financial difficulties. She is a contributor at Forbes.com, and her financial expertise has been featured in outlets like CNBC, MarketWatch, U.S. News & World Report and Financial Planning.

Jack Heintzelman grew up hearing about the challenges of running a business during the recessions of the 2000s. "[My parents] never gave up. They cared deeply about providing for their employees, their customers and, most importantly, their family," he said.

He decided to become a financial planner so that he could help other business owners grow their wealth and businesses. "I wake up each day excited about the impact I can have," he said. At Needham, Massachusetts-based Boston Wealth Strategies, Heintzelman is committed to making the practice "the firm of the future." He helped create empowerEd, a financial wellness and literacy program designed for 401(k) companies and their employees. He has both CFP and CPWA certifications and was selected to attend the G2 Leadership Institute to further his skills.

Dedicated to the advancement of young planners, Heintzelman is a leader of the FPA New England NextGen committee and a member of the local subcommittee of NextGen National. "I'm so excited about the future of this industry and the professionals that surround us," he said.

Ben Henry-Moreland was an opera singer before he used his voice to advise clients. In his 20s he performed throughout the United States and Europe; it taught him how difficult it can be to make a living as a freelance musician. After about five years, he switched tracks to become a financial analyst and then advisor, eventually founding his own RIA — Freelance Financial Planning in Minneapolis. His niche? Helping freelancers build their wealth.

"I hope to make it a little easier for freelancers who make a career out of their passion," Henry-Moreland wrote on his website. "Let's face it, it's already hard enough." More recently, he made another transition: from financial advising to writing about finance. He's now a full-time "senior financial planning nerd" at wealth management site Kitces.com.

"Ben Henry-Moreland is the next up-and-coming industry educator, writer and speaker," said Michael Kitces. "He is already building a following as a recognized expert whose analysis and commentary impact the entire industry … a trajectory that perfectly epitomizes what it means to be a 'rising star' in financial planning!"

Autumn Knutson began her professional life as an educator, teaching at elementary schools and counseling at high schools. To achieve long-term security on a teacher's salary, she worked with a financial planner. To her surprise, this advisor showed she could take her money "even further" than she had hoped.

Inspired by this experience, Knutson decided to become a wealth manager herself. Financial advising is, in a sense, a form of teaching — maybe that's why Knutson has taken to it so easily. She studied for and earned her CFP certification, and over just a few years she rose to become the lead planner at Facet Wealth in Baltimore.

This year, she took the plunge and started her own firm: Styled Wealth in Jenks, Oklahoma. As she grows her business, she's using her educator's skill set to help clients achieve their financial dreams.

"Financial planning is not so different from teaching," Knutson said. "I help others understand knowledge, how it can help them toward their goals and what choices they need to make to have the outcomes they desire."

2024 Rising Stars

Danny Lohrfink knows estate planning is all about the future, and he's ready for it.

Lohrfink got his start at Goldman Sachs, where he was vice president of Private Wealth Management. But it was at his next job, at the personal finance company SoFi, that he noticed a problem: Most people focus far more on building their wealth than on how they'll pass it down.

To investigate this, Lohrfink organized a 10,000-person survey, which found that advice from financial planners was the single biggest motivator for people to write their estate plans. This got him thinking: What if there were an estate planning website not for investors, but for their financial advisors?

This led Lohrfink to co-found Wealth.com, a platform that helps advisors build and update estate planning documents. And under his leadership, the company has introduced Ester, an AI bot that pulls key information from scanned trusts and wills and condenses it for advisors in just seconds.

By embracing the technology of the future, Lohrfink is helping advisors prepare clients for theirs.

Christopher Stroup studied petroleum engineering and worked as an engineer for Chevron for over three years before realizing he needed a change. Unable to be his authentic self in the oil and gas industry, Stroup pivoted to wealth management. Today Stroup is founder and president of Silicon Beach Financial, an RIA in Santa Monica, California.

Stroup is highly involved in his community, devoting his career to helping LGBTQ+ clients set up robust financial futures. He has partnered with the nonprofit StartOut, which supports LGBTQ+ startup founders, to create a financial management education series, and he has sat on their panels regarding LGBTQ+ inclusion. And at Abacus Wealth Partners, where he was previously an adivsor, he helped spearhead its Pride Month Pro Bono Financial Services, offering free 45-minute conversations about wealth management to LGBTQ+ clients.

Gennadiy Todd immigrated to the United States as a child, fleeing political and economic unrest in the then Soviet Union, now present-day Ukraine. He eventually went to school to become a physical therapist.

However, his real interest was helping others. He decided to pursue financial planning to marry this interest with his passion for finance. Todd is currently a financial planner at Hunt Valley, Maryland-based Hunt Valley Wealth.

Outside of work, Todd is involved in several volunteer organizations.

With the nonprofit Creating Assets, Savings and Hope, he works with low- to moderate-income families in Baltimore and greater Maryland, speaking to young people interested in finance at the group's annual Money Power Day fitness fair. He also volunteers with the nonprofit Savvy Ladies, providing pro bono financial planning services to women as they improve their financial literacy. As his nomination form said, Todd's goal is to "educate and empower them to create a secure financial future for themselves and their loved ones." **FP**

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Property tax notice
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TRAVIS/ADOBE STOCK

With property taxes rising, here's what to tell clients

As a growing area of expense, the impact to budgets and financial plans merits a discussion, according to experts.

By Tobias Salinger

The continuing surge in property taxes is gobbling up a larger share of homeowners' budgets — highlighting the importance for financial advisors to raise the topic with clients.

In their enthusiasm for buying a home or another large asset (or in the rush of the last few years to move to states with lower or zero income taxes), clients may forget that their property taxes will be a permanent part of the equation, according to financial planner Amy Irvine, the founder of Corning, New York-based Rooted Planning Group.

There are several important considerations, Irvine pointed out in an interview. For example, high-growth areas of the country will need tax revenue to bulk up infrastructure such as local schools, some clients may be eligible for relief programs benefiting veterans or seniors, and those in states with the biggest property duties may deduct only up to $10,000 under a provision of the 2017 Tax Cuts and Jobs Act that is set to expire at the end of next year.

"People look at the price of the house and what that cost is, but they don't always look at the underlying property taxes," Irvine said. "The house will be paid off at some point in time. The property tax won't."

The 12-month total for state and local property tax revenue jumped 9% year over year to $766.7 billion in the first quarter of 2024, according to data from the National Association of Home Builders tracked by FP sister publication National Mortgage News. That rate of increase was more than double the average of the past dozen years. And property taxes were already growing quickly. Between 2019 and 2023, the national median level of property taxes soared by 24% to $2,826, property data firm CoreLogic found in a study earlier this year.

"As U.S. home prices have continued to rise and reach record highs, millions of owners are feeling the pinch from soaring property taxes," CoreLogic Principal Economist Yanling Mayer wrote in the study. "In particular, the 2023 property-tax assessment cycle followed major home price gains during the pandemic. The U.S. housing market

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SASIN TIPCHAI/PIXABAY

A proactive approach to long-term care planning

Clients have several options to tackle this unpleasant topic, but for advisors, the best time to start the discussion is now.

By Rob Burgess

Long-term health care costs can drain resources in even the most carefully planned retirements.

Advisors who work with clients preparing for their post-career lives say starting the conversations early will help mitigate these surprises. But not all remedies are created equal. Some clients may be able to afford long-term care — including home health aides, residential community care and more — out of pocket. For everyone else, some form of insurance could be the answer.

Start the conversation now

Justin Warren, vice president of financial planning at Pillar Financial Group in Fresno, California, said he has visited care facilities for both clients and his family members, "and this season of retirement needs to be addressed long beforehand."

"This is a normal conversation that is a part of our planning process," he said. "I let them know even if we don't implement anything today, having the conversation is a starting point."

The issue of long-term care costs in retirement is a personal one for Marguerita M. Cheng, CEO at Blue Ocean Global Wealth in Gaithersburg, Maryland. Her father was diagnosed with Parkinson's disease right before she gave birth to her third child. She said this topic can be a scary one for clients who would rather not consider it all.

"It's not about nagging people, but nudging them to take meaningful action," she said. "Give your clients little tasks. It [isn't] meant to be scary."

Recently David W. Demming, founder and president of Demming Financial Services in Aurora, Ohio, attended the funeral of a longtime client who had Parkinson's. Demming had helped the client select group long-term disability coverage, "which insulated both her and her husband from significant expense." The husband also has Parkinson's and resides in an assisted living facility that is paid for through the insurance.

"Retirement planning means a complete review of retirement needs, including health care and end-of-life planning," Demming said. "Even without coverage that should be part of the conversation."

Michael Carbone, a financial advisor with Eppolito Financial Strategies at Raymond James in Chelmsford, Massachusetts, said he also runs multiple scenarios to show clients how a need for custodial care can affect outcomes.

"That way if a client cannot afford or is uninsurable for long-term care insurance, they can weigh the odds of needing care against how certain they'd like to be about meeting their goals," he said. "It also allows them to better grasp the costs of self-insurance, generally in the form of delaying retirement."

The reality is, Carbone said, it's more likely than not that at least one spouse will need care.

"The uncertainty surrounds the question of for how long, and whether the other spouse has longevity," he said. "I've personally dealt with this in my family, so I'll often share my experience to humanize the topic."

Deciding on the type of insurance

Tony Matheson, founder and wealth advisor at Slalom Wealth Management in Sacramento, California, specializes in working with clients over the age of 50 to prepare for retirement. When modeling cash flow in retirement plans, Matheson said he always demonstrates how various scenarios involving health care expenses will impact retirement plan outcomes. For example, one scenario will be a base case that models the costs of Medicare Parts A and B and pays minimum deductibles. Another could demonstrate how an individual's declining health might increase out-of-pocket costs and impact cash flow over time. A third example shows how a one-time catastrophic event that leads to a spouse requiring long-term care could affect the retirement plan.

"I commonly run an analysis to help clients determine whether they'd like to purchase long-term care insurance or if they'd prefer to self-insure using retirement funds," he said.

Matheson said the decision to purchase this insurance is typically not an all-or-nothing proposition.

"Clients usually determine how much risk they'd like to transfer to insurance versus how much they'd like to take on themselves," he said.

John R. Power, a CFP with Power Plans in Walpole, Massachusetts, said while each case is different, he always includes consideration of long-term care costs with client plans. Some clients, usually those with more than $2 million in invested assets, have enough to self-fund. Others have veterans' benefits that provide some coverage.

"I try to have every client have a plan for what they will do if they face a need for support," he said. "Spouses often provide a great deal of assistance, and assisted living is a reasonably affordable solution, but that isn't custodial or real medical care."

The 'use it or lose it' problem

Carbone said long-term care insurance by itself is often incredibly expensive, as "the insurance industry mispriced this risk decades ago so we're now seeing higher premiums and premium increases for existing policyholders."

Power said clients oftentimes don't like the idea of paying a high cost for long-term care insurance they may not end up using.

"Buying a life insurance policy with a long-term care rider often obviates that objection," he said. "The best I can do is offer an identification of the risk and ways they can prepare and mitigate. Many choose to just accept the risk and avoid the discussion because of the cost or unpleasantness of the alternatives."

Michael L. Rosenberg, managing director at Diversified Investment Strategies in Florham Park, New Jersey, said his firm offers clients several options. The first is a hybrid life insurance policy for healthy individuals, with a long-term care rider. For those who cannot afford a life insurance policy, a long-term care annuity might be a viable option. In this scenario, a client might give an insurance company, for example, $100,000, and the long-term care benefit might be $300,000.

As the annuity grows, the long-term care benefit grows as well.

"This option is also suitable for individuals whose health may make it difficult to get a favorable rating for a life insurance policy," he said.

Long-term care is one the largest risk factors for running out of money in retirement, said Emmanuel K. Eliason, president and CEO of Eliason Wealth Management in Centennial, Colorado. He said the concept of "use it or lose it" when it comes to long-term care insurance is the biggest downside, besides increasing cost.

That's why he said he recommends purchasing it through an employer, as it's often cheaper than doing so privately.

Another viable alternative to a traditional long-term care policy is to use life insurance with accelerated living benefits riders for long-term care.

"Either way, consumers should properly review the terms of their policies and shop around for alternative solutions that could be more cost-effective and efficient in terms of their overall financial plan," he said. **FP**

Rob Burgess *is a reporter for Financial Planning.*

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recorded a nearly 40% price increase between 2019 and 2022, making it one of the hottest in history.

Property taxes are based on a home's assessed value and can vary from state to state or by county or municipality. But almost invariably, property taxes typically increase over time as values rise."

Irvine's team works with many clients who pay high property taxes as residents of New York, California and Connecticut, so they discuss the impact on the customers' financial plan as part of the advisory practice's onboarding process, she noted.

To forecast the expense line in future years, the firm then "can do some investigation" through county websites that share an area's annual rate increases and provide a historical glimpse into an individual property's assessment.

Some homeowners may also qualify for breaks on their property value or tax based on military service, programs designed to help seniors or a "homestead exemption" for certain taxpayers, depending on the geographic area, age, loss of their spouse or being a person with a disability.

"We look at stuff like that to see if people qualify and if they're leaving some money on the table by not enrolling in those programs," Irvine said, noting that capital gains could also pose an impact on the discount. "That may cause them to lose a reduction of their property taxes by not paying attention to those kinds of things." **FP**

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advisory firm Advisor Growth Strategies. While "cash remained a popular tool to de-risk potential sellers" last year, the buyers deployed liquid assets "more discerningly in 2023," the report said.

The average percentage of equity offered in deals made by acquirers surveyed by the firm has climbed by 10 percentage points to 31% in the past three years, while the level of cash has dropped to 64% from 77%.

"Deal-structuring has shifted in the aggregate to focus more on partnership mentalities — meaningful cash combined with sharing risk and upside through equity consideration," according to the report.

"Down payments, retention consideration, equity and earnouts or earn-more incentives are the headline-grabbing metrics," it continued. "Transaction consideration and structure are critical because a seller-specific market is forming that includes what a current majority ownership group negotiates with the next generation to encourage retention and upside in a transaction. This trend is only becoming more acute as selling firms reconcile the present with the future in a transaction. The topic of next-generation incentives in a transaction serves as a warning to RIAs that fail to consider long-term incentives. Plan now or pay later."

In terms of taxes, that lower share amount of incoming cash could slash part of the hit from Uncle Sam. However, the sellers may get the equity from the buyer in the form of "a taxable rollover" that provides cash that they use to buy the shares, Wilhelm noted. Sellers tend to choose that type of transaction when Congress or a presidential administration is pushing for new policies that could bring higher taxes in future years than under the current rules, he said.

The other option is a tax-deferred rollover with a structure resembling a 1031 exchange — a deal in which the parties swap similar assets using criteria that are subject to IRS regulations about "like-kind" transactions. That process gets much more complicated in RIA transactions because, technically speaking, the advisory practice is usually selling its assets to the buyer's holding company rather than spinning off its equity to the acquiring firm. In that case, the deal agreements must translate the assets in the selling firm into equity from the underlying operating business of the seller.

"You don't pay taxes on it until some event down the road," Wilhelm said. "The question is, how do you reflect that in your legal documents in order to get to that desired outcome under the current tax laws?"

For prospective sellers, the tax- and business-related impacts of equity swaps illustrate why it's important to have an auction process that gives them an opportunity to be "talking to a bunch of different buyers" about the deal structure, he added. That means, if they hope to defer some of the taxes, asking potential buyers "about whether that's something that's available is a good thing," Wilhelm said. By the same token, the potential sellers can examine their own RIA.

"What I would suggest is that they talk to an accountant beforehand to make sure that whatever entity structure they have right now will accommodate that," he said. **FP**

Tobias Salinger *is the chief correspondent of Financial Planning. Follow him on Twitter at @TobySalFP.*

TRAVIS/ADOBE STOCK

How to guide clients out of big stock concentrations

The planning strategies for large individual equity holdings pose tax, investment and behavioral questions.

By Tobias Salinger

Concentrated stock holdings carry higher risks of volatility and — once sold in order to diversify investment portfolios — potentially steep tax hits for clients.

Behavioral biases often linked to one stock due to a client's long-term association with a company through their employment, early investment or another factor are common, according to experts. They represent "a tricky conversation for advisors, but probably one they're pretty commonly having," said Jeremy Milleson, a director of investment strategy with Morgan Stanley- and Eaton Vance-owned asset manager Parametric Portfolio Associates.

The discussion can begin with an acknowledgement that the large holding is "a good problem to have," and also raises the question of "how do we more tax-efficiently potentially reduce that concentration," Milleson said.

"For some clients, maybe the majority of their wealth might be in an individual stock," he said. "For a lot of clients, there is that emotional tie."

In five-year rolling periods spanning from 2000 to 2021, the value of every single stock in the S&P 500 dropped by at least 20%; and 63% of them tumbled by 40% or more, according to a blog post by Milleson.

Over a longer period between 1987 and 2023, tracking a wider swath of stocks as a benchmark for the market in the Russell 3000, just 34% of the individual companies outperformed the index, 27% underperformed but still reaped positive returns and 39% lost value, data from BlackRock showed.

"In theory, stocks are riskier investments that should provide higher returns than less risky investments like Treasury securities," notes a study by the research arm of Baird Private Wealth Management. "However, the risk/reward premium turns against the investor when too few stocks are owned, and especially when the investor holds a single or large dominant position."

A client's refusal to diversify may stem from more than a half-dozen forms of behavioral biases, according to an analysis earlier this year in Financial

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COMPLIANCE

WRIGHTSTUDIO/ADOBE STOCK

How to get new tech past the compliance check

While AI tools such as ChatGPT are abundant, there's no guarantee compliance will approve them for office use.

By Rachel Witkowski

There are many new technologies and AI developments that advisors find useful and seem to be ubiquitous in the industry, but that doesn't mean compliance departments will easily approve those new tools for use at a firm.

Most advisors and tech developers say the hardest step is often getting their compliance team to sign off on an AI tool or new tech vendor, despite many studies that show AI is increasingly being used by advisors. More than 60% of 400 advisor respondents surveyed by Horsesmouth said they use AI tools, according to the June study. One of the most common tools cited was the large language model (LLM) and publicly free ChatGPT.

"People may not even think about it and just use something like a ChatGPT, and they're in violation of their firm's policy," said Randy Carver, president and CEO of Carver Financial Services and registered principal at Raymond James Financial. Data security is "an important consideration with some of this AI stuff, even ChatGPT, because as soon as you put it in there, it's out in the cold," he said.

Carver is a frequent user of AI tools, such as scheduling and writing assistants, at his office and personally. But he cautioned that not all of these tools can be used for clients, due to compliance hurdles and the understandable need to protect data.

"It's a struggle," he said. "We actually looked at moving our website to a different vendor. Turned out they're running servers in Eastern Europe. I can't do that. Who knows where the information goes?"

In a survey by Financial Planning earlier this year, 63% of respondents said they use AI tools.

However, nearly half of the advisors said they feared the current forms of AI could create ethical issues and biases, with 24% reporting their firm banned AI or restricted its use to specific employee functions or roles.

"The compliance team is not there for technology. They are there for product and regulatory compliance," said Andrew Evans, CEO and founder of Rossby Financial, an open-architecture RIA platform based in Melbourne, Florida. "They don't want to mess around with new technology, so they will put it on the back burner."

Compliance has reason to be concerned, because anything new and buzzy also attracts the attention of governing bodies including FINRA and the U.S. Securities and Exchange Commission.

In June, FINRA released a regulatory note acknowledging the benefits of tools such as generative AI and LLMs. But it warned that "the development of Gen AI also has been marked by concerns about accuracy, privacy, bias, intellectual property and possible exploitation by threat actors, among others."

Because of the heightened security concerns with AI, some industry leaders say the first step is to take a new tool straight to compliance.

"You've got to ensure that everything you're doing is protected. Even if you think it's a calendaring app, it's still collecting people's names and email addresses," said Andree Mohr, president of Integrated Partners, a hybrid registered investment advisor based in Waltham, Massachusetts.

Evans suggests that advisors who want to use new tech should first read the compliance manual about technology implementation and then take the pitch as high in the C-suite as possible, with the expectation that it will be "a roller coaster" ride.

He added that it's important to know when it's time to stop pushing a new tech.

But that does not mean a new technology that has been rejected at first is permanently dead in the water. Ed Friedman, director of business development and growth at Summit Financial, an RIA based in Parsippany, New Jersey, recalled pausing advisors from using ChatGPT nearly two years ago, when it was in its infancy.

Their perspective began to change in June, when Morgan Stanley released an AI-powered assistant called AI @ Morgan Stanley Debrief, built through OpenAI's GPT4, to do the so-called "grunt work" for advisors by dictating and summarizing meetings.

"We're starting to understand that there's an application to it that we don't necessarily have to be as concerned about," Friedman said.

Many of the AI tools currently being used in the advisor workplace — as well as compliance and regulatory solutions — will be discussed by industry leaders during Financial Planning's new ADVISE AI conference on Oct. 9-10 in Las Vegas. **FP**

Rachel Witkowski *is the technology reporter for Financial Planning.*

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Advisor magazine by Larry Swedroe, the head of financial and economic research for St. Louis-based registered investment advisory firm Buckingham Wealth Partners. For example, heavy concentrations in one stock can trigger commitment and confirmation bias, in which investors believe they would be disloyal to sell and tune out evidence that holding on to the same position isn't their best course, he noted. Taxes can play into their reasons for staying the course as well.

"A major issue that often leads investors to fail to diversify their concentrated position is the desire to avoid paying large capital gains taxes," Swedroe wrote. "Before addressing strategies to avoid or at least minimize that problem, I remind investors that there is only one thing worse than having to pay taxes — not having to pay taxes (as happened to those with concentrated positions in Enron, among many others)."

As an antidote for a possible tax hit, Swedroe mentioned an alternative investment in the form of a leveraged strategy known as variable prepaid forwards, as well as charitable donations or moving the shares into a diversified basket of securities called an exchange fund. However, the latter choice defers the tax hit rather than eliminating it outright, Milleson noted in his blog post. A custom diversification strategy over time through direct indexing could produce losses for offsetting capital gains as well, he wrote.

If the client must hold onto the shares for any reason, an options-based covered call strategy could cut down on their concentration and boost their earnings over time, he added.

With "a lot of different solutions" for concentrated stock holdings and the accompanying tax questions, advisors should take an educational approach in guiding clients through the process, Milleson said. They don't need to wind down all of their holdings in a stock at once, either.

As advisors inform the customers of the risks of not diversifying, they can "highlight that while being sensitive to the client, who probably takes great pride in having built their wealth from this position, it's worth having those conversations, understanding that maybe it's one of those solutions or a combination of those solutions that's the best fit for the client," he said. **FP**

Tobias Salinger *is the chief correspondent of Financial Planning. Follow him on Twitter at @TobySalFP.*

PEXELS

The easy AI tools that any advisor can use

Firms developing new digital tools are finding that starting out simple saves time and generates adoption.

By Rachel Witkowski

For financial advisors embedded in traditional portfolio management in a highly regulated industry, it's easy to get mystified by new, complex algorithms and cutting-edge technologies such as AI. Plus, some new AI tools are harder to learn than they are to use.

That's partly why larger firms including Merrill Wealth Management and Morgan Stanley are starting with automated tools that are simple in nature but also the most useful: They might schedule a meeting, take meeting notes or draft summaries with action plans between the advisor and client.

Most recently, Merrill launched a scheduling app that helps advisors send a link to clients who can then see the advisor's calendar and instantly book or change an appointment and set reminders. The firm estimates it saves teams more than 75,000 hours per year by removing an average of 18 minutes of back-and-forth to schedule an appointment and automating it to roughly two minutes.

Merrill's digital scheduler is similar to digital schedulers marketed to the public, such as Calendly and OnceHub, which are also increasingly used by advisors.

"Calendly is definitely a game changer," said Randy Carver, president and CEO of Carver Financial Services and registered principal at Raymond James Financial.

> **"We are missing the mark in considering that AI cannot make financial decisions."**

A 2024 study by Orion found that 45% of the 542 advisors surveyed said technology would save them the most time in operations and administrative tasks, compared to 12% who said it would help investment management training.

A Financial Planning survey of advisors performed earlier this year found that about half of the 127 respondents said they'd trust AI to be responsible for making predictions on their car or house maintenance needs, but only 15% said they'd trust it to make financial recommendations.

Another leading AI developer, Morgan Stanley, in

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VOLODYMYR SHCERBAK/ADOBE STOCK

Is it time for some firms to go on a tech-stack diet?

Advisor consultants say some firms are creating "tech debt" through purchasing technology they do not use.

By Rachel Witkowski

Advisory firms are beginning to question whether there's too much tech in their tech stack. Studies reveal that some advisor tools have very low usage rates, inadvertently creating tech debt instead of tech efficiencies for firms.

"I find that the term is worthless when people talk about, 'Oh, what is your tech stack?'" said Andrew Evans, CEO and founder of Rossby Financial, an open-architecture RIA platform based in Melbourne, Florida.

Evans is referring to the all-in-one tech platforms that many of the largest wealthtech platform providers offer.

"Everybody just started to have the exact same stuff. They had to get it because everybody else had it," he said. "The advisor's tech spend keeps going up, but they're only using maybe 25% of everything that it can do."

A March Orion study that polled 542 advisors found that, on average, advisors utilize only 62% of the tech they have available. That's partly why wealthtech platforms such as Orion and Nitrogen (formerly Riskalyze) have begun offering a la carte tech services or software.

"Many of my clients have moved toward your all-in-one type places, like Orion, Black Diamond or [another] self-proclaimed all-in-one … and they don't use it all," said Bryce Carter, senior manager and wealth technology strategist at F2 Strategy, a wealthtech consultant based in Chicago. "Trying to be all things to all people and have an all-in-one solution, you potentially, likely aren't great at all of them together, so concentrating your focus on the things that you're really good at and really leaning in — that is a trend that I'm seeing."

There is one caveat to this, however. Carter said smaller firms, typically with under $500 million in assets under management, most often need an all-in-one platform until they grow large enough that they require more customization. Customizing tech is costly — another reason smaller firms stick to full-service tech platforms.

F2 Strategy estimates that it costs $1 million to $5 million for a firm with under $2 billion in AUM to implement vendor tech while filling in gaps with proprietary tech, according to a report released earlier this year in collaboration with Dynasty Financial Partners.

"When we come in and do a technology assessment, I typically will find about a 10% to 20% waste on their tech budget," said John O'Connell, founder and CEO of The Oasis Group, a Monroe Township, New Jersey-based technology consultant. Some firms are "bleeding money because you've got multiple solutions doing the same thing. They don't talk to one another."

This tech "waste" that O'Connell describes typically amounts to tens of thousands of dollars a year for a firm.

Joel Bruckenstein, producer of the Technology Tools for Today (T3) Conference, argued that it's more about a lack of vendor oversight than tech stacks getting too large.

"I don't think it's that the tech stack is too fat," he said. "I think advisors struggle to do their due diligence on the various vendors."

Some industry tech leaders argue that firms should audit their tech stack at least once a year, if not more.

"Instead of jumping right into this new shiny object and exciting piece of technology, sometimes you need to see, maybe this is already a feature that just hasn't been pushed from another product" that the firm has already implemented, said Jordan Hutchison, vice president of technology and operations at RFG Advisory. "That's why I feel you've got to review what you have at least every year. And review the adoption, because some of these products, the adoption rates are fairly low."

For this reason, Hutchison said RFG Advisory uses the tech-stack strategy of "one product per category," meaning one vendor per grouping, such as using one CRM platform for all data reporting that also has added features if customization is needed.

But Hutchison added that it's also critical for firms to keep a constant eye on vendor competition and maintain a "conviction to change" vendors if it becomes clear the existing adoption rate is not working. He noted a good adoption rate is generally at least 80% of a firm's core tech platforms.

"That's another hot button right there, in that some people will stay with a product just because of the difficulty to change can be a lot," he said. But "you 100% do need to have some kind of process around making sure you don't have tech debt, where you're just paying for a piece of technology that no one uses." **FP**

Rachel Witkowski *is the technology reporter for Financial Planning.*

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late June released its AI-powered assistant called AI @ Morgan Stanley Debrief, which helps advisors dictate and summarize meetings, or what the firm calls "grunt work."

"We envision a world where AI serves as an efficiency enhancing interaction layer that sits between our colleagues and the many applications they interact with, such as execution and order entry, CRMs, reporting tools and risk analysis," Jeff McMillan, head of Firmwide Artificial Intelligence at Morgan Stanley, said in the product announcement.

And the wealth management industry is just getting started with AI. The most common applications so far, including scheduling and note-taking, are the easy pickings when models such as CoPilot can do more with automated note-taking, said John O'Connell, founder and CEO of The Oasis Group, a Monroe Township, New Jersey-based technology consultant for wealth managers and fintech firms.

"The CoPilot applications can combine data from your CRM and meetings to generate agendas for upcoming client reviews based on all the meeting notes from the past client meetings," he said. "The data from similar clients may be used in the future to generate agendas with new items, or next best actions, to discuss with your client."

In July, JPMorgan Chase launched a more comprehensive form of AI, called Quest IndexGPT, that uses OpenAI's GPT-4 large language model to generate specific keywords, which are then used to build thematic indices for institutional investors. It's the first time JPMorgan is using an LLM to back a client-facing offering, demonstrating how AI can be used to assist in making financial decisions.

"We are missing the mark in considering that AI cannot make financial decisions," O'Connell said.

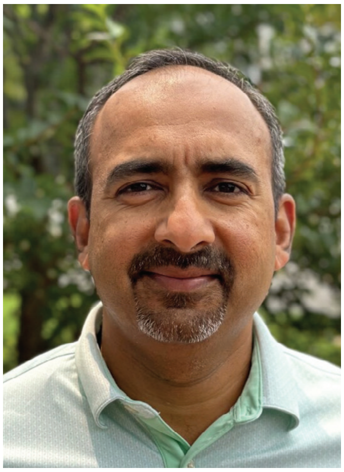
"Gen Z prospective clients do not meet many firm's minimums today and will use AI to guide their investing. These investors will have little need for financial advisors when they inherit wealth from their parents if they've used AI to manage their investments for years," he added.

"This should be a wake-up call for wealth managers to learn AI today and use it to deliver better and more service to their clients and their heirs in order to protect their firm," he said. **FP**

Rachel Witkowski *is the technology reporter for Financial Planning.*

WEALTH THINK

Bharathan



Why advisors should embrace client testimonials

Fears have kept advisors behind the curve of an ubiquitous marketing practice, but it's time to play catch-up.

By Rishi Bharathan

Online reviews have become so prevalent that they seem like just another step in completing a transactional purchase, whether it's buying a car, visiting a new restaurant or watching a recently released movie. And these reviews can be powerful: In a survey by trend-tracker Exploding Topics, 93% of consumer respondents said online reviews impact their buying decisions.

In the advisory community, the ability to solicit, produce and feature client testimonials is still relatively new, given the SEC's 2021 updated marketing rulings. In essence, the rule states that advisors must disclose if a client has been compensated with cash, fee discounts or other non-cash compensation in exchange for providing a testimonial or endorsement. Advisors are also generally not permitted to selectively publish or delete testimonials, meaning they can't cherry-pick their favorites. Nor can advisors help create or dictate the content of a testimonial — in other words, an advisor can't explicitly ask a client to leave a five-star review.

Yet despite this qualified green light from the SEC, RIA firms that I approached have been hesitant to proceed with client testimonials due to lack of education and fear of running afoul of regulators. This hesitance will prove an increasing barrier to practice growth in the coming years. After all, if consumers today rely on online input to make decisions as innocuous as where to get dinner, imagine the importance such feedback will play in determining which financial advisor they should work with soon and in the coming years.

Here, I'll explore top advisor concerns about soliciting testimonials and offer some solutions.

Pestering high-value clients

Asking clients — especially multimillion-dollar ones — to leave a review about your services may feel a little uncomfortable, even tacky. This is a common concern for advisors, particularly those who work with ultrahigh net worth investors.

However, I've found that there are a few effective ways to get around this challenge.

> **Being hesitant to use client testimonials will prove an increasing barrier to practice growth.**

First, consider reframing the request. Instead of asking for a review, ask for feedback on the client experience so far. Explain briefly how their feedback will help you better address their needs and reassure them that their opinions and concerns are important to you.

In addition, try to make the process as easy and fast as possible, so you're not requesting too much time out of their day. One option is to have an investor experience platform like ours, or another third-party, compliance-friendly survey service, send the client a few focused questions, ask for a rating on each

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5 ways that advisors can ‘finfluence’ Gen Z clients

Generation Z is hungry for financial advice, but planners must first form a 3D view of the challenges the cohort faces.

By Camay Pascucci

As I sit in my open workspace — a member of Generation X surrounded by Generation Z colleagues — it’s easy to overhear their anxiety-freighted conversations. One talks about how rent currently represents 40% of their take home pay. Another is apprehensive about wages lagging behind the cost of living. Yet another is pessimistic about buying their first home given historically high housing costs, while another, burdened by massive student loan debt, sees such worries as aspirational.

My Gen Z clients are under the same kinds of very real pressures as my colleagues, but such anxieties don’t tell the whole story about this cohort born between the late 1990s and early 2000s. This is a dynamic group — financially savvy, digitally fluent and eager to learn.

By adapting your approach to their unique circumstances and offering them the tools and resources they need, you can empower Gen Z clients to achieve their financial goals as you grow your practice alongside them into the future.

Here are several approaches I’ve implemented as I offer guidance to Gen Z.

Foster grounded expectations

Most of us have been there — scrolling through social media late at night and getting sucked into the world of fabulous influencers and “finfluencers.”

But Gen Zers in particular grew up with social media at their disposal. It’s crucial to help them understand these platforms can be a breeding ground for unrealistic expectations, a condition dubbed money dysmorphia.

Many finfluencers paint a picture of investing that is fueled by luxury lifestyles and get-rich-quick schemes. However, we know the truth: Building wealth takes time and a personalized strategy.

Social media can be a great starting point to pique your Gen Z client’s interest, but it is important that they understand that relying on it solely can lead to misunderstanding, misinformation and, ultimately, unrealistic expectations. It’s important to help your Gen Z clients understand that social media offers generalized advice that might not apply to their unique situation. While there is valid advice to be gleaned, they should think of it as a “Dummy’s Guide” to get them started with basic financial vocabulary. Help Gen Z understand that financial planning is like finding the perfect pair of shoes — not one size fits all.

Keep it simple

When working with Gen Z clients, I emphasize the essentials: spending, saving, emergency funds, expenses and investing. The key is keeping it simple.

When it comes to overall budgeting, I teach them about the difference between fixed expenses and variable expenses so that they know how much money they have left over at the end of the month. Then, I guide them on the most efficient use of their money, whether it’s debt repayment or initiating long-term investments.

At this stage of the client’s

life there are often limited extra funds to work with. I frequently advise Gen Zers to use an app to track their expenses in order to identify opportunities to reduce them.

Leverage Roth 401(k) options

In general, Roth IRAs are a great option for clients who qualify. However, there's a game changer for Gen Z: the Roth 401(k).

This option is becoming increasingly available through employers and offers a unique benefit: the ability to contribute post-tax dollars toward retirement savings regardless of income level.

This means a client can maximize their contributions and enjoy tax-free growth for decades. It's important to note that a Roth 401(k) might not be ideal for everyone, particularly those already in a high tax bracket. However, investing in a Roth 401(k) alongside a Roth IRA can be a powerful strategy, especially if a Gen Z client's employer offers a match.

Crypto: Learn the language

Whether you're a cryptocurrency enthusiast or skeptic, understanding crypto is crucial with Gen Z clients, as many are already invested in it or interested in it.

I've run into many Gen Z investors who are fully invested or have a large portion of their savings in crypto. With such investments becoming mainstream, it's essential that you're able to discuss the pros and cons with clients and whether crypto has a place in their plans.

Educating them on the importance of diversification is key, and using the 2022 bitcoin crash as an example can help you build rapport and facilitate productive conversations about building a well-rounded investment strategy for their future. They'll be more open to your guidance if you can engage with them on their terms.

Use alternate pricing schedules

Many Gen Zers are early in their income-earning and saving years. They may want financial advice yet cannot meet asset minimums of traditional firms.

If this is a segment you are serious about serving and growing with, consider using an hourly rate, a flat fee or project fee or a subscription-based fee. All of these will allow you to align your time with the value your Gen Z client seeks.

The future is bright for the financially savvy, digitally fluent and eager-to-learn members of Gen Z. By adapting your approach and offering them the tools and resources they need, you can empower them to achieve their financial goals while growing your practice alongside them. **FP**

Camay Pascucci *is vice president, wealth management at OneDigital Retirement + Wealth.*

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and collect the information needed quickly. This also has the advantage of adding a buffer between you and the client, thus taking the focus off of you.

Fear of negative reviews

In my work, I have overwhelmingly found that people who take the time to leave reviews do so because they're happy with the relationship. Yes, it's always possible that a client will leave a negative review — and that fact alone turns advisors away from testimonials altogether.

But if that does happen, reframing a negative review as crucial client feedback can make it one of the most valuable data points an advisor will collect.

Feedback from current clients provides opportunities for advisors to level up their practices and client experience. Less-than-perfect reviews can also make advisor testimonials appear more credible and authentic. Think about it — most star ratings online aren't perfect, and if they are, it's often cause for suspicion.

Compliance tripwires

Perhaps the biggest anxiety for advisors when it comes to testimonials is understanding what compliance, whether it be SEC or state regulators, does and does not allow. Working with a third-party platform or service that understands and addresses compliance requirements can help resolve this issue.

It's also important to consult with your compliance team before proceeding. Depending on the size of your firm and compliance team, they may have already established internal guidelines based on SEC or state regulations.

These guidelines can serve as a valuable resource to ensure your use of testimonials in marketing materials remains compliant. Your chief compliance officer can help you navigate the latest rulings and establish compliance-friendly recordkeeping procedures and disclosures.

Investors want to make an informed decision before choosing to work with an advisor, and they put an incredible amount of trust in social proof. I believe that in the coming years, showcasing clients' satisfaction through reviews and testimonials will not only become an increasingly important differentiator for advisors, but it will also help prospects better envision themselves as future clients. **FP**

Rishi Bharathan *is CEO of Indyfin Powered by WiserAdvisor.*

AUGUST 2024

CE Quiz

VISIT FINANCIAL-PLANNING.COM/CE-QUIZ TO TAKE FINANCIAL PLANNING'S CONTINUING EDUCATION QUIZ.

From: These common HSA mistakes can cost clients

1. Clients under age 65 who spend money from an HSA account for a nonqualified expense can pay up to this percentage of the withdrawal amount as penalty.
1. 15%
2. 20%
3. 25%
4. 30%

2. At age 65 and above, clients will pay up to this amount in withdrawal penalties if they use their HSA money for nonqualified expenses.
1. 5%
2. 10%
3. 12%
4. There will be no penalty, but the client will have to pay taxes on the amount withdrawn

From: Avoid this common retirement blunder

3. Typically, association group term life insurance reduces its coverage by what percentage when the policy holder reaches the age of 75?
1. 25%
2. 30%
3. 45%
4. 50%

From: Final IRS rules to IRA beneficiaries: Get going on those RMDs already

4. Per new IRS rules that eliminate the so-called stretch strategy, beneficiaries who inherit an IRA from someone who died in 2020 or later must take distributions on all of those assets within how many years?
1. 10
2. 12
3. 15
4. 20

5. Which of these types of beneficiaries are exempt from the above rule?
1. Disabled heirs
2. Spouses
3. Heirs younger than the late IRA holder by 10 years or less
4. All of the above

From: Why (and how) advisors should embrace client testimonials

6. Per the SEC's marketing rulings updated in 2021, which of the below are advisors allowed to do?
1. Selectively delete negative public testimonials from clients
2. Help create the content of a client testimonial
3. Ask clients to provide feedback on a public platform (as long as they do not explicitly ask for a glowing review)
4. None of the above

From: Shareholder activism on the rise, with ESG proposals surging

7. Which of these SEC rules covers when a company must include a shareholder's proposal in its proxy statement (or when it can exclude it based on eligibility criteria)?
1. SEC Rule 10b-5
2. SEC Rule 12b-12(d)
3. SEC Rule 14a-8
4. Rule 13h-1(d)(3)

From: 20 states with the highest tax burdens in 2024

8. Which of the below states has the highest property tax burden, as a share of total personal income, for residents?
1. California
2. New Jersey
3. Massachusetts
4. Maine

From: The 20 ETFs with the biggest inflows of July 2024

9. Which of the below ETFs has the most favorable expense ratio?
1. Vanguard Long-Term Corporate BD ETF (VCLT)
2. Investor Nasdaq 100 ETF (QQQM)
3. Invesco S&P 500 Equal Weight ETF (RSP)
4. iShares Bitcoin Trust ETF (IBIT)

10. Which of the below ETFs has had the best one-year return as of Aug. 2, 2024?
1. SPDR Gold Shares (GLD)
2. The Financial Sector SPDR ETF (XLF)
3. SPDR Portfolio S&P 500 ETF (SPLG)
4. iShares Russell 2000 ETF (IWM)

Financial Planning offers its Continuing Education Quiz exclusively online at financial-planning.com/ce-quiz. To earn one hour of continuing education credit from the CFP Board of Standards, please visit our website and answer the questions above. Planners must answer eight out of 10 questions correctly to pass. Credit will count under CFP Board subject A: financial planning process/general principles. The deadline for participation is August 31, 2025.

In addition, the Investments & Wealth Institute, formerly the Investment Management Consultants Association, has accepted this quiz for CIMA, CIMC and CPWA CE credit. Advisors must answer eight out of 10 questions correctly to pass. The deadline is August 31, 2025.

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